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MBIA (MBI) / 1 Mar 23 / 2022 Q4 Earnings call transcript

Company Profile

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Greg Diamond	Managing Director of Investor & Media Relations
Bill Fallon	Chief Executive Officer
Anthony McKiernan	Executive Vice President and Chief Financial Officer
Tommy McJoynt	KBW
John Staley	Staley Capital Advisors

Operator

Good [Technical Difficulty] and welcome to the MBIA Fourth Quarter and Full-Year 2022 Financial Results Conference Call.

I would now like to turn the call over to Greg Diamond, Managing Director of Investor & Media Relations at MBIA. Please go ahead, sir.

Greg Diamond

Thank you, Todd. Welcome to MBIA's conference call. After the market closed yesterday, we issued and posted several items to our websites, including our financial results, 10-K, quarterly operating supplement, and statutory financial statements for both MBIA Insurance Corporation and National Public Finance Guarantee Corporation.

Regarding today's call, please note that anything said on the call is qualified by the information provided in the company's 10-K and other SEC filings, as our company's definitive disclosures are incorporated in those documents. We urge investors to read our 10-K as it contains our most current disclosures about the company, and its financial and operating results. 10-K also contains information that may not be addressed on today's call. The definitions and reconciliations of the non-GAAP terms included in our remarks today are also included in our 10-K, as well as our financial results report and our quarterly operating supplement.

The recorded replay of today's call will become available approximately two hours after the end of the call, and the information for accessing it was included in last night's press release and in the financial results report posted yesterday on the MBIA website.

Now for our Safe Harbors disclosure statement.

Our remarks on today's conference call may contain forward-looking statements. Important factors such as general market conditions and the competitive environment could cause our actual results to differ materially from the projected results referenced in our forward-looking statements. Risk factors are detailed in our 10-K, which is available on our website at mbia.com. The company cautions not to place undue reliance on any such forward-looking statements. Company also undertakes no obligation to publicly correct or update any forward-looking statement if it later becomes aware that such statement is no longer accurate.

For our call today, Bill Fallon and Anthony McKiernan will provide introductory comments, and then a question-and-answer session will follow.

Now, here is Bill Fallon.

Bill Fallon

Thanks, Greg. Good morning, everyone. Thank you for being with us today.

As I reported last quarter, we've hired Barclays as an advisor to help us explore potential strategic opportunities for the company and that process remains ongoing.

Our assessment of the alternatives will be deliberate and guided by our determination to create value for our shareholders, while also meeting all obligations to policyholders.

As I noted last quarter, we do not intend to disclose further developments regarding this process unless and until we determine that further disclosure is appropriate or necessary.

Additionally, no specific outcome can be guaranteed. Since our last conference call, the plan of adjustment to restructure the debt of the Puerto Rico highways and transportation authority or HTA was confirmed and implemented a national extinguished its insured exposure of HTA bonds.

National's last remaining significant Puerto Rico exposure is PREPA. In December, National reached an agreement in principle with the Puerto Rico Oversight Management Board regarding PREPA's proposed plan of adjustment. That agreement resulted in National entering into a planned support agreement that, among other things, provided for the consensual resolution of the treatment of claims held by National related to insured PREPA revenue bonds and PREPA's amended plan of adjustment.

The PSA remains subject to a number of conditions, including, but not limited to, the Title III court's approval of the amended plan of adjustment and confirmation and effectiveness of such amended plan.

As of December 31, National's remaining exposure to PREPA is approximately \$710 million of gross par insured.

Turning to National's other insured credits. The insured portfolio has continued to perform consistent with our expectations. National's insured portfolio has continued to run off as its outstanding gross par declined by \$4.8 billion from year-end 21 to approximate \$32 billion at December 31, 2022. National's leverage ratio of gross par to statutory capital declined to 16:1 at the end of 2022, down from 18:1 at the end of 2021.

As of December 31, 2022, National had total claims paying resources of \$2.4 billion and statutory capital and surplus of \$1.9 billion.

Now, Anthony will provide additional comments about our financial results.

Anthony McKiernan

Thanks, Bill, and good morning. I will begin with a review of our fourth quarter and full-year 2022 GAAP and non-GAAP results. The company reported a consolidated GAAP net loss of \$52 million or negative \$1.05 per share for the fourth quarter of 2022, compared to a consolidated GAAP net loss of \$155 million or negative \$3.12 per share for the fourth quarter ended December 31, 2021. The lower net loss this quarter was largely driven by lower loss in LAE at National as National stated a loss in LAE benefit in the fourth quarter of 2022 versus an expense in Q4 2021 related to Puerto Rico insured exposures.

Lower loss in LAE at MBIA Corp, as Corp stated a loss in LAE benefit in the fourth quarter of 2022, primarily due to higher risk-free rates on its insured RMBS exposure versus an expense in Q4 2021, due to lower projected Zohar recoveries. Higher investment income and gains on VIEs at MBIA Corp. These favorable variances were somewhat offset by losses from discontinued operations related to an impairment on Zohar-related collateral at MBIA Corp.

As of December 31, National sold all of the Puerto Rico GO bonds that had received as part of the GO debt restructuring implemented in March of 2022 and approximately 58% of its Puerto Rico GO-related contingent value instruments or CVIs.

As of today, we've now sold 73% of the GO CVI. National also sold approximately 22% of its HTA CVIs during the year. And as of today, we've sold 58% of the HTA CVI.

In Q4 as part of the final HTA settlement, National received cash and \$177 million face value of new HTA bonds. At year-end, we'd sold 86% of those bonds and sold the remainder subsequent to year-end. The company's adjusted net income, a non-GAAP measure, was \$15 million or \$0.30 per diluted share for the fourth quarter of 2022, compared with an adjusted net loss of \$106 million or a negative \$2.13 per diluted share for the fourth quarter of 2021. The favorable change was due primarily to the lower loss in LAE and higher investment income at National.

Turning to fiscal year 2022 results. The company reported a consolidated GAAP net loss of \$195 million or a negative \$3.92 per share for the fiscal year 2022, compared to a consolidated GAAP net loss of \$445 million or a negative \$8.99 per share for the year ended December 31, 2021. The lower net loss this year was largely driven by lower loss and LAE at both National and MBIA Corp, higher investment income, and gains on VIEs and MBIA Corp. These favorable variances were somewhat offset by losses from discontinued operations related to impairment on Zohar-related collateral at MBIA Corp, realized investment losses and lower premium earnings.

The company's adjusted net loss was \$145 million or a negative \$2.90 per diluted share for the year ended December 31, 2022, compared with an adjusted net loss of \$161 million or negative \$5.27 per diluted share for the fiscal year 2021. The favorable change was due primarily to lower loss in LAE and higher investment income at National.

MBIA Inc's Book value per share decreased to a negative \$16.07 per share as of December 31, 2022 versus a negative \$5.73 per share as of December 31, 2021, primarily due to unrealized losses on investments recorded to other comprehensive income driven by higher interest rates and wider credit spreads, as well as the \$195 million fiscal year 2002 net loss. Included in book value is a negative \$37.76 per share book value of MBIA Corp.

I will now spend a few minutes on the corporate segment balance sheet and our insurance company's statutory results. The corporate segment, which primarily includes the activity of the holding company, MBIA Inc., and total assets of approximately \$645 million as of December 31, 2022. Within this total are the following material items: Unencumbered cash and liquid assets held by MBIA Inc., totaled approximately \$230 million as of December 31, 2022, compared with \$239 million as of December 31, 2021.

The holding company received the \$72 million as of right dividend from National in November. The corporate segments assets also included approximately \$324 million of assets at market value pledged to the GICS and the interest rate swaps supporting the legacy GIC operation.

Turning to the insurance company's statutory results. National reported statutory net income of \$40 million for the quarter ended December 31, 2022 versus statutory net income of \$5.5 million for the quarter ended December 31, 2021. The favorable comparison was primarily due to a loss in LAE benefit in Q4 2022 versus loss in LAE expense in Q4 2021 related to Puerto Rico exposures, as well as higher investment and premium income.

For the 12 months ended 12/31/2022, National reported statutory net income of \$75 million versus statutory net income of \$55 million for 12 months ended 12/31/2021. The favorable comparison was primarily due to higher net investment income, lower loss in LAE expense, as well as higher premium earnings somewhat offset by realized investment losses.

Statutory capital year-over-year was consistent at \$1.9 billion at 12/31/2022 and claims paying resources reduced to \$2.4 billion versus \$2.9 billion year-over-year, due to the settlement and elimination of Puerto Rico GO and HTA exposures. From inception through 12/31/2022, gross claims paid on insured Puerto Rico exposure totaled approximately \$2.9 billion. In Q4, National paid \$556 million in claims to fully satisfy outstanding HTA exposure.

Turning to MBIA Insurance Corp it's statutory net income was \$16 million for the fourth quarter of 2022, compared to a statutory net loss of \$40 million for the fourth quarter of 2021. The favorable comparison was primarily due to loss in LAE benefit in Q4 2022, driven by higher statutory discount rates benefiting RMBS and CDO exposure versus loss in LAE expense driven by lower Zohar recoveries in Q4 2021, as well as higher net investment income.

For the year ended 12/31/2022, MBIA Insurance Corp's statutory net income was \$46 million, compared to a statutory net loss of \$129 million for the year ended 12/31/2021. The favorable comparison was primarily due to a loss in LAE benefit in 2022, driven by higher expected Zohar recoveries versus loss in LAE expense in the prior year, due to lower expected Zohar recoveries, the higher statutory discount rate benefiting mostly RMBS exposure and higher net investment income, partially offset by a decline in net premiums earned.

As of December 31, 2022, the statutory capital of MBIA Insurance Corp was \$169 million and claims paying resources totaled \$669 million. MBIA Corp's insured gross par outstanding reduced by approximately \$700 million during the quarter and was \$3.4 billion as of December 31, 2022.

And now we will turn the call over to the operator to begin the question-and-answer session.

Operator

Thank you. The floor is now open for your questions. [Operator Instructions] We'll take our first question from Tommy McJoynt with KBW.

Tommy McJoynt

Hey, good morning, guys. Thanks for taking my questions.

Just a couple here.

Looking at the loss reserve as of 12/31 on the balance sheet, what recoveries does that bake in for PREPA? Does that reflect the plan of adjustment that was filed in mid-February? And if I'm looking at that plan, that recovery amounts to about \$0.80 on the dollar to summarize it. Is that right?

Anthony McKiernan

So your -- the first part of your question, Tommy, hey, good morning, it's Anthony, is correct. The loss on the GAAP balance sheet, the loss reserve reflects the economics and transaction that we negotiated related to the PSA, the insurance loss recoverable on the asset side is the recovery on claims we've already paid on PREPA that all incorporates the transaction that we've negotiated. And I think the recovery if you put it all together is a bit higher than what you've described, but it's in the ballpark.

Tommy McJoynt

Okay. Thank you. And then my next question. It's a bit tough to get a good grasp on tracking some of all of the unrealized fair value marks that flow through the financials here.

So just looking at National and MBIA Inc., as a holding company, so excluding MBIA core, all else equal should higher interest rates, kind of, decrease the net book value there? I guess basically is there more value in the company in a higher rate or a lower rate environment?

Anthony McKiernan

For MBIA Inc., given the ALM legacy business in general higher rates are positive for MBIA Inc., because you know we have the swaps on the ALM business, so we pay fixed and receive floating on those.

So a higher interest rate, you can see how the derivative liability has decreased substantially during the year. In the near-term for national, the higher interest rates generally have a negative impact on the value of the investment portfolio. But that said, since we have such a handle on how our liquidity is managed over time. We're not in a position where we need to take any kind of forced sale situation there.

So as we reinvest Nationals portfolio over time, we think that should be positive.

Tommy McJoynt

Okay, thanks. And then my last one, it doesn't sound like you're going to give, kind of, an update on the strategic process with Barclays. But can you just kind of -- do you guys still maintain that process is not dependent on PREPA being resolved?

Bill Fallon

Yes, Tommy, as we indicated, we started the process and announced it at the last call and as we've indicated given that Puerto Rico and our exposure in Puerto Rico is substantially restructured at this point. It's just the one credit even on PREPA, there's substantial progress. We don't believe that, that will stop a transaction if we find the right transaction from happening.

Tommy McJoynt

Okay. Thank you.

Operator

[Operator Instructions] Our next question will come from John Staley with Staley Capital Advisors.

John Staley

Bill, good morning. I have a couple of questions, the first one you mentioned on a prior call, that you work with Barclays evaluating the sale of the company and if that wasn't robust enough it would consider a runoff and a liquidation of the company. Obviously, you've been engaged with Barclays for a number of months. Do you have any further qualification of that statement? Do you think you're more likely to sell or more likely to have a runoff or you've not learned anything so far on that question. I have a couple more questions.

Bill Fallon

Sure. Good morning, John. With regard to your first question, I think we've learned a lot so far in the process.

We are in the middle of it. And I don't think while we've learned a lot, it has swayed us in either direction as you pose that whether it be that a sales more likely or a runoff is more likely.

As we've indicated all along, what we want to do is what's best for shareholders.

So we continue to look at both those options and evaluate what we're learning during this process. And as I said, when we have something, we'll make sure that everyone knows it.

John Staley

Okay.

Second question, which is very puzzling to me. This looks like a pretty cut and dried situation whenever you resolve Puerto Rico. And when you entered into this agreement with regard to PREPA, it looks fairly crystallized.

You have the odd ball thing of the MBIA Insurance having to stay on its own and doesn't have recourse. I'm just trying to grasp what is not -- what's keeping this process from being concluded? I don't get it. I mean, a sure guarantee is a layover, over you guys.

You said in prior call, the attractiveness of MBIA in addition to its name and its history and its legacy is capital.

You've built up tremendous liquidity, I don't -- what hell of stopping this process from being completed. I'm really puzzled by it. I realize I'm not an insurance expert, but what's back aren't already on the table?

Bill Fallon

Yes, John, I don't think the question of whether there's any facts that are on the table as you probably are aware in any transaction, let's call it an acquisition. There's a tremendous amount of work that goes into that. There are many people that could be interested in the company. We evaluate all those and any company that is interested has a certain amount of due diligence that they like to do.

So again, we want to make sure that we get good value for the shareholders and that we evaluate all opportunities. And I can't speak for other parties in terms of how quickly or how deliberately, they go through the process and therefore whether that is not necessarily meshing with your timeline for potential transaction.

John Staley

Okay. And then one final question. Obviously, your management [crew] (ph) and your management team 19%, 20% of the company. And that's a great incentive to a shareholder like me. And I think you guys have managed your capital, your buybacks or all of that, which is the reason I've been such a large long-term investor.

Assuming there is an acquisition, is there any compensation incentive in place to you and your management team over and above your significant capital share ownership where you would win just like the rest of the shareholders. Is there any kind of acquisition bonus or acquisition payday or anything like that, that's built into your structure?

Bill Fallon

Yes. Couple of thoughts, John. I agree with you in that we've make sure that management is aligned with shareholders.

As you point out, I don't know if the number is quite as high as you indicate, but we've make sure that management is compensated or significant portion of their compensation is in stock, because we wanted to make sure there was alignment and I think we've done a good job on that.

In terms of any specific bonus for the sale of the company, there are no additional bonuses. The incentive is to -- the same as shareholders to make sure that we optimize the value for shareholders.

John Staley

As always, thank you very much for your questions and for your very good answers. Thank you very much.

Bill Fallon

Thank you.

Operator

Thank you. [Operator Instructions] We'll pause just a moment for any additional or further questions. And we do have a question in queue. It comes from Hutch Capital. Please go ahead. And your line is open. Please go ahead. Can you hear me?

Unidentified Participant

Yes.

Just wanted to ask -- anyway can you provide any more color on the sale process just in terms of things that companies usually provide at this point like how many interested parties there were, how many signed NDAs, sort of, if you guys are in any sort of stage of an M&A timeline, just sort of general color like that?

Bill Fallon

Yes. With regard to the process as I mentioned, we indicated on the last call a few months ago that we had hired Barclays. The process itself is pretty typical for an acquisition process.

So it sounds like you're familiar with how those work.

We have obviously one of the leading banks helping us and we're going through what I would consider a pretty typical sale process at this point in time.

Have you narrowed the list down or can you provide? Is it -- are we talking about just sort of handful of people doing significant due diligence at this point? Or is it still in the gathering of the sort of fire stage?

Bill Fallon

Yes. We think it's most appropriate not to disclose anything else at this point in time.

As I mentioned in my introductory remarks, so I think we'll keep it to -- we're in the process to your question, it's a pretty typical process led by an investment bank and we'll update people as we have more information.

Unidentified Participant

Fair enough. Thank you. Appreciate it.

Bill Fallon

Thank you.

Operator

Thank you. At this time, I show no further questions in queue. I'll turn the call back to Greg Diamond for any additional or closing remarks.

Greg Diamond

Thank you, Todd, and thanks to those of you listening to our call today. Please contact us directly if you have any additional questions.

We also recommend that you visit our website at mbia.com for additional information about the company. Thank you for your interest in MBIA. Good day and goodbye.

Operator

Thank you, ladies and gentlemen. This concludes today's MBIA fourth quarter and full-year 2022 financial results conference call.

You may disconnect at this time and have a wonderful day.